

March 22, 2006

At issue: some Representatives in the Michigan House are proposing that the State of Michigan create a retirement savings platform to facilitate Michigan's small businesses setting up 401(k) plans.

The proposal's basic premises are:

1. Employees will take advantage of an employer-sponsored plan, if offered.
2. Setting up 401(k) plans is costly and complicated for small business owners.
3. There are no retirement plan providers willing to work with small businesses.

Premise 1: Employees will take advantage of an employer-sponsored plan, if offered.

Consumer behavior statistics show us that not everyone will save in an employer-sponsored plan if offered.

Some averages:

In larger plans, (ave. 10,687 Ee's), overall only 7.5 of 10 eligible workers saved in their company-sponsored retirement plan. (Deloitte & Touche Annual Benchmarking Survey 2005/2006).

In 2004, the rate of participation for family heads-of-household was as follows:

In businesses employing fewer than 10, 13.7% offered a Plan and ~1 Ee in 10 participated.

In businesses employing 10 to 20, 36.3% offered a Plan and ~ 2.5 Ee's in 10 participated.

In businesses employing 20 to 99, 57.5% offered a Plan and ~ 4 Ee's in 10 participated.

In businesses employing 100 to 499, 77.4% offered a Plan and ~5.6 Ee's in 10 participated.

In businesses employing 500 or more, 86.7% offered a plan and ~6.7 Ee's in 10 participated.
(Employee Benefit Research Institute Notes February 2007)

In 2005, in the public sector, 83% of employees participated in a retirement plan.

In 2005, in Michigan, 75% of public sector employees participated and 46.7% of private sector employees participated in a retirement plan.

(Employee Benefit Research Institute Issue Brief, No. 299, November 2005)

According to the Fidelity Research Institute's 2007 Retirement Index, some barriers to saving for retirement were:

- 33% barely had any money left after paying basic living expenses;
- 28% were procrastinating – putting off saving
- 27% used any extra money to pay off credit card debt

Employees who may be motivated to save for retirement, but who are not covered by an employer-sponsored plan at work, can still save in an IRA on their own.

The annual IRA limits are \$4,000 versus \$15,500 in a 401(k) or \$10,500 in a SIMPLE IRA. The reality is, however, that the majority of participants are not saving anywhere near the limits. 79% of participants save less than 8% of their annual salary and of those, a third saves less than 6% of their salary. (Deloitte & Touche Annual Benchmarking Survey 2005/2006).

Quick math example: 8% of \$50,000 is \$4,000 & 6% of \$66,666 is \$4,000.

Premise 2 Setting up a retirement plan is costly and complicated for small business owners.

Setting up a plan is pretty straight-forward.

Step 1 The employer determines what type of plan to establish based on his/her employee base and company cash flow: a 401(k) or a SIMPLE or other. If the employer needs help in this determination he/she can consult with his/her Banker, CPA, Attorney or Financial Advisor.

Step 2 The employer sets up the plan via any of several bundled or "one-stop-shopping" arrangements with a banker, pension consultant, mutual fund company, insurance company, etc. The employer may also choose an un-bundled arrangement.

Setting up a plan for a business can cost as little as \$500-\$1200. The set-up cost is dependent on the number of employees, the degree of plan design complexity and the service platform. Internet-based, fully-automated platforms tend to be less expensive than non-automated platforms.

On-going, annual costs vary based on the service and technology platforms and number of employees.

Premise 3 There are no retirement plan providers willing to work with small businesses.

As a Michigan community banker and chair of the Michigan Banker's Association Trust Retirement Services Committee, I speak for Founders Bank & Trust as well as other Michigan Banks.

Michigan banks and Michigan bankers are committed to helping families and individuals prepare for a confident retirement. We work with businesses of all sizes to establish and operate all types of retirement savings vehicles. Many banks, including Founders Bank & Trust, have dedicated products to serve the smaller-plan and start-up markets.

In addition to bankers, the Directory of Individual 401(k) and Small Business Retirement Plan Providers from the website 401khelpcenter.com identifies 113 firms interested in working with small business retirement plans as of January 19, 2007.

In summary: 1.) 20% to 30% of employees do not take advantage of a 401(k) plan when offered. Employees working for smaller businesses are less likely to save than employees at larger organizations. Employees who want to save but do not have access to an employer's plan can do so in an IRA. 2.) Setting up a retirement plan does not have to be a complicated exercise for the employer. 3.) There are plenty of providers, including Michigan banks, eager to work with small businesses.

Employers are not offering plans because employees don't use them and are not asking for them. Raise employee demand and employer supply will follow.

The twin challenges the State might tackle could be to promote public awareness of the potential shortfall retirees may face if they fail to save, and to help educate Michigan families as to the importance of saving for the future while avoiding consumer debt.

Let Michigan Banks and other local retirement plan providers rise to the challenge of increased demand for retirement plans.